

MUNICIPALITY OF GRENVILLE

SPECIAL REPORT

2010



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

April 1, 2010

Governing Board
Municipality of Grenville – Day County
Grenville, South Dakota

Pursuant to a request by a petition of the resident taxpayers of the Municipality of Grenville (Municipality) we performed procedures we deemed relevant to the operations of the Municipality and to address the concerns raised by the resident taxpayers. The areas of the operations we reviewed and the results of our review are set forth below. These procedures did not constitute an audit made in accordance with generally accepted government auditing standards and does not extend to, and we do not express an opinion on, any financial statements or reports of the Municipality of Grenville.

Liquor Store Operations

Our procedures disclosed weaknesses in the internal controls and recordkeeping procedures in effect at the Municipality's Liquor Store, as discussed below:

- a. Liquor store revenues were susceptible to loss, due in part because necessary policies, procedures and controls have not been implemented or consistently applied:
 1. A profit/loss calculation for the on sale and off sale operation of the liquor store was not properly prepared. This calculation would allow the governing board to assess the profitability of the liquor store operation and determine compliance with the board's established amount of markup for liquor resale items.
 2. Controls have not been implemented to verify lottery, vending machine, and daily sales deposits made by the finance officer.
 3. The liquor store allowed employees to "charge" for certain items consumed at the liquor store and then the amount was subsequently taken out of the employee's paycheck. We recommend the board adopt a policy that no charges for merchandise used by employees be allowed. Employees should pay for these items at the liquor store at the time purchased.
 4. The liquor store employees were allowed a free meal allowance while on duty (up to \$5). This practice may result in the meal allowance being an additional benefit for tax purposes and also may distort the gross profit calculation, if not properly accounted for.

- b. Concerns were raised regarding the application of Ordinance 132, which was approved on August 4, 1997 and provides, in part, that any establishment within municipal limits engaged to sell alcohol must purchase all of their supplies of alcohol, wine and malt beverages thru the Municipality at cost plus freight charges and the percentage of mark-up. Our testing revealed that the ordinance is being followed as set forth in the contracts entered into between the Municipality and the establishments. However, invoices were not obtained from one of the distributors to allow the Municipality to verify that what they received from the establishments was correct. We obtained and tested several invoices from both distributors comparing what was received from the establishments to what should have been received by the Municipality and found no errors. Invoices should be obtained directly from the distributors and retained by the Municipality.
- c. Concerns were raised that there may have been money owed the Municipality by individuals related to the liquor store operation that has not been collected. Some of the concerns appear to stem from a past special review finding found in our Department of Legislative Audit special reports dated February 22, 1999 and January 13, 2003.

In our special report dated February 22, 1999 we recommended that \$13,892 be collected from the party or parties responsible for un-deposited cash. This was discussed with the Day County States Attorney and we were informed that the State's Division of Criminal Investigation conducted an investigation with no one being charged. We reviewed a letter from the prior States Attorney which revealed that restitution was made to the Municipality totaling \$1,905.38 from a former liquor store employee for personal checks included as part of cash on hand at the liquor store.

We also determined based on our discussion with the States Attorney that restitution totaling \$589 was paid to the Municipality in 2003 through the Day County Clerk of Courts, resulting from a juvenile being charged with unlawfully breaking into the Municipality's liquor store.

We were informed by the States Attorney that he is not aware of any other amounts owed the Municipality which should have been paid and were not.

The Day County Sheriff indicated to us a break-in at the finance office was brought to his attention. An investigation was conducted by the Sheriff but there were no signs of forced entry and no one was charged.

- d. Additional concerns were raised that there may be additional money owed to the Municipality by a former employee of the liquor store. We addressed this situation during our 2003 review of the Municipality and discussed it with municipal officials. Municipal officials decided at that time, that due to the inadequate nature of the records maintained and the expense of investigating, that it would not be pursued.

General Government - Records and Reports

Our procedures disclosed weaknesses in the internal controls and recordkeeping procedures in effect at the Municipality, as discussed below:

- a. The Municipality's general ledger cash balances were not properly reconciled to the bank balances resulting in inaccurate cash balances being reported on the December 31, 2009 and December 31, 2008 annual reports.

- b. Concerns were raised that the 2008 annual report disclosed an adjustment for missing inventory in the amount of \$9,967, and other adjustments, to the beginning fund cash balance of the Liquor Fund. Our testing revealed several errors in the preparation of the 2008 annual report. After revising the amounts reported on the 2008 annual report, none of the adjustments to the beginning fund cash balance of the Liquor Fund were necessary.

In addition, a chart was prepared by the finance officer that indicated missing inventory amounting to approximately \$9,198. Our testing revealed errors or incorrect methodologies were used in the preparation of the chart. After revising the methodology used, we feel the potential missing inventory is likely much less than the \$9,198 amount shown in the chart furnished to the governing board.

- c. The finance officer informed us that the governing board would pre-sign several checks. Blank checks should not be pre-signed by the governing board.
- d. In 2009 the Municipality paid a member of the governing board for working at the Municipality's liquor store an amount in excess of the \$3,000 amount allowed under SDCL 9-14-16.1.
- e. The 2009 and 2010 annual appropriation ordinances did not properly specify the function and subfunction as prescribed by SDCL 9-21-2 and the Municipal Accounting Manual. In addition, the 2009 adopted budget did not balance by fund type where the total means of finance equaled total appropriations.
- f. In 2009 the Municipality incurred expenditures in excess of the amount provided for in the annual appropriation ordinance in violation of SDCL 9-21-9. The Municipality exceeded the General Fund-General Government appropriated amount by approximately \$8,000 and the Public Safety appropriated amount by approximately \$1,000.
- g. Monthly reports showing a comparison of actual revenues to budgeted revenues and actual expenditures to appropriated expenditures were not provided to the governing board by the finance officer.
- h. Concerns were raised that records were missing from the Municipality's office. During the course of our review we reviewed the records of the Municipality and found none to have been misplaced or missing. The Municipality did approve and the destruction occurred in July of 2008, of numerous past records such as vouchers, bank statements, etc., in accordance with the South Dakota Bureau of Administration Record Retention and Destruction Schedule.

General Government – Ordinances

Our procedures disclosed deficiencies in the manner in which the Municipality adopts and maintains the ordinances in effect at the Municipality, as discussed below:

- a. The Municipality's ordinance book was not being properly maintained. SDCL 9-19-14 states "After an ordinance takes effect, the auditor or clerk shall record the same together with a certificate of the date of its publication in a book to be known as the "Ordinance Book," and file the affidavit of publication with the original ordinance."

- b. We noted instances where ordinance numbers were used more than once and instances where the ordinances for annual appropriations and appropriation supplements were missing. In addition, the Municipality was mixing resolution and ordinance numbers.
- c. Concerns were raised that the Municipality was not properly interpreting or enforcing certain ordinances. Our response to any municipal governing board concerning the interpretation or enforcement of ordinances is that they consult with their legal council to determine the appropriate action to follow. It appears that the Municipality has done this and is relying on the advice of its legal council.

General Government Operations

- a. Concerns were raised that the Municipality had entered into contracts in which local officials had a conflict of interest in violation of SDCL 6-1-1. SDCL 6-1-1 states in part "It shall be unlawful for any officer of a ... municipality ... who has been elected or appointed, to be interested, either by himself or agent, in any contract entered into by said ... municipality ... either for labor or services to be rendered, or for the purchase of commodities, materials, supplies, or equipment of any kind, the expense, price, or consideration of which is paid from public funds or from any assessment levied ...". SDCL 6-1-2 states certain conditions under which contracts with officials are permitted. We reviewed all checks issued to the Municipality's board members or entities with which they had an interest and determined that payments were within the amounts allowed under conditions for which contracts with officials are permitted by SDCL 6-1-2.
- b. Concerns were raised regarding the application of Ordinance 154 - Grenville Water Services. The concern related to whether a South Dakota Water Operator was on site when work was performed on municipal water service lines. We discussed this matter with the South Dakota Department of Environment and Natural Resources and were informed that there are no state requirements or laws requiring a water operator be on-site when work is performed on municipal water service lines. The Municipality presently has a contract with a South Dakota Water Operator; however, the contract does not appear to require the operator be on-site when work is done on municipal water service lines.

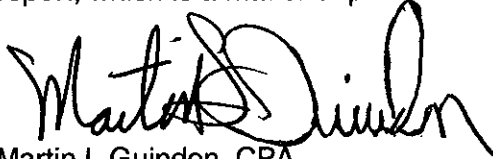
Ordinance 154 requires that when work is done on a municipal water service line that a licensed plumber be on-site and that the work must be inspected by a state licensed plumber. The Municipality did have work performed on municipal water service lines in 2008 and 2009. The individual who performed the work was a state licensed plumber in 2008; however, was not during 2009.

- c. Concerns were raised regarding the application of Ordinance 155 – An ordinance regarding moving buildings within or into the Municipality of Grenville. The concern related to whether a building moved into the Municipality complied with the ordinance requirements. Ordinance 155, section 155-2 provides, in part, that all buildings moved into or within the Municipality of Grenville must be on a continuous cement foundation, unless otherwise approved through a variance issued and approved by the Municipality's governing board. Ordinance 155, section 155-3 states, in part, that no building shall be moved into or within the Municipality of Grenville without a moving permit obtained and approved by the Municipality's governing board and that the fee for a moving permit will be \$25.

This issue has been resolved by the Municipality's governing board. We determined that for the building in question a moving permit fee has been collected and a variance has been approved by the governing board to delay the pouring of a cement foundation.

- d. Concerns were raised regarding whether the contractor with whom the Municipality entered into a snow blowing contract has liability insurance or whether the Municipality's insurance covers this. We determined the Municipality has a contract for snow blowing which was entered into on July 6, 2009 for the 2009-2010 winter season. Proof of insurance submitted by the contractor indicates that the company has had liability insurance coverage since November 25, 2009. In addition, the Municipality has a liability insurance policy. However, we recommend when the Municipality enters into contracts for service provided by outside contractors that proof of liability insurance be provided to the Municipality at the time the contracts are signed.

This report is intended solely for the use of management and the governing board and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in black ink, appearing to read 'Martin L. Guindon', with a stylized flourish at the end.

Martin L Guindon, CPA
Auditor General